

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period
April 16, 2013 Through April 15, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

**AUDIT OF THE
LAWRENCE COUNTY
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period
April 16, 2013 Through April 15, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Taxes for the Lawrence County Sheriff for the period April 16, 2013 through April 15, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected 2013 taxes of \$6,921,932 for the districts, retaining commissions of \$252,075 to operate the Sheriff's office. The Sheriff distributed 2013 taxes of \$6,648,674 to the districts. Taxes of \$11,197 are due to the districts from the Sheriff and refunds of \$530 are due to the Sheriff from the taxing districts.

Report Comments:

2013-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
2013-002 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
2013-003 Certificates Of Delinquency Should Be Promptly Turned Over To The County Clerk

Deposits:

The Sheriff's deposits as of November 4, 2013 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$236,130

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
SHERIFF'S SETTLEMENT - 2013 TAXES.....	4
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENTS AND RECOMMENDATIONS.....	15



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable John Osborne, Lawrence County Judge/Executive

Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Lawrence County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable John Osborne, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2013 through April 15, 2014 of the Lawrence County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015 on our consideration of the Lawrence County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lawrence County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable John Osborne, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2013-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2013-002 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
- 2013-003 Certificates Of Delinquency Should Be Promptly Turned Over To The County Clerk

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

December 17, 2015

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT - 2013 TAXES

For The Period April 16, 2013 Through April 15, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 736,775	\$ 1,283,493	\$2,150,004	\$ 525,652
Tangible Personal Property	87,009	128,122	253,903	167,552
Fire Protection	5,619			
Increases Through Exonerations	910	1,480	2,654	734
Franchise Taxes	302,180	465,396	881,646	
Additional Billings	311	481	881	220
Unmined Coal - 2013 Taxes	26,743	41,912	78,038	19,079
Oil Property Taxes	11,912	18,670	34,762	8,499
Gas Property Taxes	14,797	23,191	43,180	10,557
Penalties	7,120	12,437	20,667	5,374
Adjusted to Sheriff's Receipt	535	1,071	(222)	(141)
Gross Chargeable to Sheriff	<u>1,193,911</u>	<u>1,976,253</u>	<u>3,465,513</u>	<u>737,526</u>
<u>Credits</u>				
Exonerations	7,970	14,275	23,233	5,680
Discounts	13,038	21,543	37,780	10,534
Delinquents:				
Real Estate	41,525	78,136	120,360	29,427
Tangible Personal Property	1,986	2,916	5,778	4,329
Gas and Oil	1,169	1,832	3,411	834
Unmined Coal - 2013 Taxes	<u>4,116</u>	<u>6,451</u>	<u>12,011</u>	<u>2,937</u>
Total Credits	<u>69,804</u>	<u>125,153</u>	<u>202,573</u>	<u>53,741</u>
Taxes Collected	1,124,107	1,851,100	3,262,940	683,785
Less: Commissions *	<u>47,775</u>	<u>77,351</u>	<u>97,888</u>	<u>29,061</u>
Taxes Due	1,076,332	1,773,749	3,165,052	654,724
Taxes Paid	1,073,021	1,766,603	3,155,014	654,036
Refunds (Current and Prior Year)	<u>1,668</u>	<u>2,926</u>	<u>4,747</u>	<u>1,175</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 1,643</u>	<u>\$ 4,220</u>	<u>\$ 5,291</u>	<u>\$ (487)</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT - 2013 TAXES
For The Period April 16, 2013 Through April 15, 2014
(Continued)

* Commissions:

4.25% on	\$	3,618,362
3% on	\$	3,262,940
1% on	\$	40,630

** Special Taxing Districts:

Library District	\$	1,900
Health District		1,069
Extension District		1,029
Soil Conservation District		178
Fire & Rescue		87
Fire Fee		<u>(43)</u>

Due Districts or

(Refund Due Sheriff)

\$	<u>4,220</u>
----	--------------

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Lawrence County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2014
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 4, 2013, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$236,130

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2013. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2014. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2013 through April 15, 2014.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2013. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 26, 2014 through February 23, 2015.

Note 4. Interest Income

The Lawrence County Sheriff earned \$964 as interest income on 2013 taxes. As of December 17, 2015, the Sheriff owed \$525 in interest to the school district and \$439 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Lawrence County Sheriff collected \$39,738 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Osborne, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Lawrence County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 17, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lawrence County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lawrence County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2013-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lawrence County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2013-002 and 2013-003.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

December 17, 2015

COMMENTS AND RECOMMENDATIONS

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2013 Through April 15, 2014

INTERNAL CONTROL - MATERIAL WEAKNESS:

2013-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. The bookkeeper collects and deposits tax receipts, records all transactions, prepares the monthly report, and reconciles the bank account. By not segregating these duties, there is an increased risk of misappropriation of assets either by error or fraud. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. If these duties cannot be segregated, the Sheriff should perform the following compensating controls to help offset this weakness:

- Recount and make the daily deposits.
- Agree daily tax collection total to the receipts ledger and deposit slip.
- Agree monthly tax reports to receipts ledger and disbursements ledger.
- Review the monthly bank reconciliations.

Sheriff's Response: No response.

STATE LAWS AND REGULATIONS:

2013-002 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly

The Sheriff did not distribute interest earned on tax collections to the school or the fee account on a monthly basis. The Sheriff earned \$964 of interest in his 2013 tax account. KRS 134.140(2) requires the Sheriff to pay monthly "that part of the investment earnings for the month which are attributable to the investment of school taxes." According to KRS 134.140(4), the balance of investment income should be paid to the Sheriff's operating account. The Sheriff should distribute the investment earnings at the same time as monthly tax collections. Based on the amount of interest earned, the Sheriff owes \$525 to the school district and \$439 to the fee account. We recommend the Sheriff comply with KRS 134.140 by remitting the interest due to the school and fee account on a monthly basis.

Sheriff's Response: No response.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2013 Through April 15, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2013-003 Certificates Of Delinquency Should Be Promptly Turned Over To The County Clerk

KRS 134.122(1)(a) states that the Sheriff shall file all delinquent tax claims remaining in his possession with the county clerk within three months and fifteen days from the date the taxes were due. The delinquent Unmined Coal tax transfer was not completed until February 23, 2015; however, collections began in May of 2014. The bookkeeper had concerns with the Unmined Coal tax collections and the corresponding tax account and postponed disbursing final reports and transferring delinquent tax bills. The resulting delay put the Sheriff's office in non-compliance with KRS 134.122(1)(a). According to KRS 134.122(1)(d), the non-compliance also holds the Sheriff liable on his bond for the aggregate amount of the tax claims not filed with the clerk. It is recommended that the Sheriff's office adhere to KRS 134.122(1)(a) by following the time frame stated for the transfer of delinquent taxes.

Sheriff's Response: No response.

